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**Finance Committee**

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**HB 1554**

**Brief Description:** Providing excise tax relief for aerospace product development businesses.

**Sponsors:** Representatives B. Sullivan, Ericks, Strow, Linville and Dunn.

**Brief Summary of Bill**

- Extends the sales and use tax exemption for computer equipment and software, business and occupation (B&O) tax credit for preproduction development expenditures, B&O tax credit for property taxes, and the 0.2904 percent B&O manufacturing tax rate to tooling used in the manufacturing of commercial airplanes; maintenance, repair, overhaul support equipment, ground support equipment and test equipment used for support of commercial airplanes; and general aviation aircraft.

**Hearing Date:** 1/31/07

**Staff:** Rick Peterson (786-7150).

**Background:**

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, and activities not classified elsewhere.

Sales tax is imposed on retail sales of most items of tangible personal property and some services, including construction and repair services. Sales and use taxes are imposed by the state, counties, and cities. Sales and use tax rates vary between 7 and 8.9 percent, depending on location. There are a number of sales and use tax exemptions, including machinery and equipment directly used in manufacturing.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

Property taxes are imposed by state and local governments. All real and personal property in this state is subject to the property tax based on its value, unless a specific exemption is provided by law. There are exemptions for certain properties, including property owned by federal, state, and local governments, churches, farm machinery, and business inventory.

In 2003, the Washington Legislature adopted tax incentives that were limited to aerospace manufacturers. The incentives included: a reduction in the B&O tax rate; a B&O tax credit for pre-production development expenditures; and a B&O tax credit for property taxes paid on property used in the manufacture of commercial airplanes and airplane components. A leasehold tax exemption for port district facilities is available to manufacturers of super-efficient airplanes that are not using the B&O tax credit for property taxes. Also included were sales and use tax exemptions for computer equipment and software, and its installation, used primarily in the development of commercial airplanes and components. These exemptions are scheduled to end in 2024.

In 2006, the Washington Legislature extended the sales and use tax exemption for computer equipment and software to nonmanufacturing firms engaged in the development, design, and engineering of commercial airplanes and components of commercial airplanes. The B&O tax credit for preproduction development expenditures related to commercial aircraft was also extended to nonmanufacturing firms.

Businesses that use these incentives file an annual report with the Department of Revenue (DOR). The report includes employment, wage, and employer-provided health and retirement benefit information for full-time, part-time, and temporary positions.

### **Summary of Bill:**

Sales and use tax exemptions are provided for computer equipment and software, and its installation, used primarily in aerospace product development. Aerospace product development is the development, design, and engineering of commercial airplanes and components of commercial airplanes, tooling used in the manufacturing of commercial airplanes and parts, maintenance, repair, overhaul support equipment, ground support equipment and test equipment used by airline customers in the aftermarket support of commercial airplanes, and general aviation aircraft and components of general aviation aircraft.

Firms may take a credit of 1.5 percent of qualified aerospace product development expenditures against the B&O tax.

The B&O tax rate is set at 0.2904 percent for the manufacture and sales of tooling used in the manufacturing of commercial airplanes and parts, maintenance, repair, overhaul support equipment, ground support equipment and test equipment used by airline customers in the aftermarket support of commercial airplanes, and general aviation aircraft and components of general aviation aircraft.

A B&O tax credit is also allowed for such manufacturers on property used exclusively in eligible manufacturing activities as follows:

- 1) property taxes paid on a new building and its underlying land;
- 2) property taxes attributable to an increase in assessed value due to building renovation or expansion; and
- 3) property taxes paid on machinery and equipment.

Businesses that claim the 1.5 percent B&O tax credit for aerospace preproduction development expenditures, the reduced B&O tax rate, or the B&O property tax credit must file annual surveys with the DOR by March 31. The survey must include employment, wage, and employer-provided health and retirement benefit information. Those claiming the 1.5 percent B&O tax credit for aerospace product development expenditures must also provide information on the expenditures, assignment of the credit, and the number of research projects, products, patents, copyrights, and trademarks.

**Appropriation:** None.

**Fiscal Note:** Requested on January 22, 2007.

**Effective Date:** The bill takes effect on October 1, 2007.